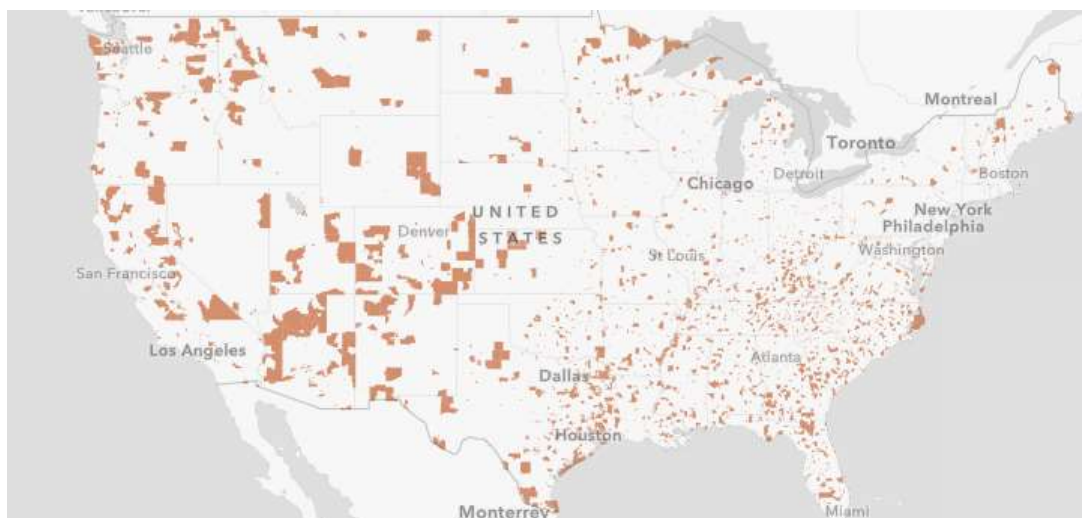


What is an Opportunity Zone?

- A census tract designated by each state or territory and certified by Treasury as eligible to receive private investments via Qualified Opportunity Funds.
- Meets definition of a “low-income community” (LIC), or ...
- Contiguous to a LIC and with a median family income that doesn’t exceed 125% of the LIC.
- 10-year designation as an Opportunity Zone.
- More than 8,700 Opportunity Zones have been designated in the 50 U.S. states, the District of Columbia and five U.S. territories.

Source: Milken Institute

Opportunity Zones



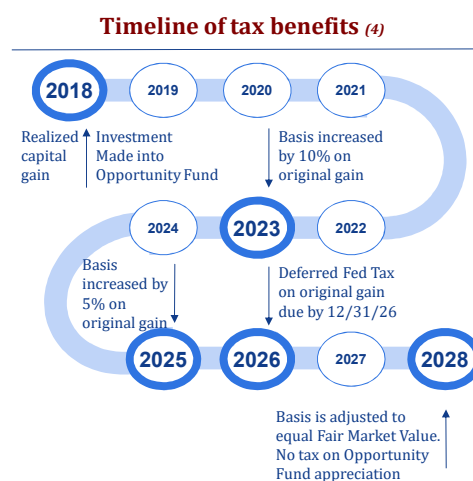
Source: Economic Innovation Group.

What is a Qualified Opportunity Fund?

- **An investment vehicle set up as a partnership or corporation to invest in eligible property located in an Opportunity Zone.**
- **Qualified Opportunity Funds are funded by realized capital gains and must deploy 90% of capital into Opportunity Zones.**
- **Eligible investments include real estate and operating companies, although real estate investments are subject to improvement tests (100% of basis).**
- **Qualified Opportunity Funds must self-certify they meet all rules; forms expected 1Q2019. IRS revenue guidance pending.**

How do the Tax benefits work?

- **Opportunity Funds may provide potential Federal tax incentives to investors ^(1,2,3)**
- **A temporary capital gains tax deferral for all newly realized capital gains reinvested in an Opportunity Fund, lasting until the investment is sold or December 31, 2026, whichever is sooner.**
- **A 10% basis adjustment on the original capital gains, which can result in tax reductions if the Opportunity Fund investment is held for 5+ years; plus an additional 5% adjustment if the investment is held for 7+ years.**
- **If an investor holds the Opportunity Fund investment for 10+ years, the investor may permanently avoid capital gains taxes on any proceeds from the Opportunity Fund investment itself.**



¹ Milken Institute does not provide investment advice and any information contained in this document is for informational purposes only and does not constitute financial, accounting, or legal advice.

² IRS Revenue Guidelines are required for clarification and have yet to be released

³ For a more detailed explanation of Opportunity Zones and Qualified Opportunity Funds, please visit: irs.gov and cdfund.gov.

⁴ Kosmont Companies proprietary graphic

Why Reno?

Transportation

LESS THAN 1-DAY TRUCK SERVICE TO > 60 M CUSTOMERS, 8 STATES, 5 MAJOR PORTS.
2-DAY TRUCK SERVICE TO 11 STATES.



Business-Friendly

RANKED IN TOP 10 STATES FOR BEST BUSINESS TAX CLIMATE.
RANKED IN TOP 10 STATES FOR BUSINESS INCENTIVES.



Tax Advantages

NO CORPORATE TAX
NO PERSONAL INCOME TAX
NO INVENTORY TAX
NO FRANCHISE TAX
NO SPECIAL INTANGIBLE TAX



Technology Infrastructure

MAJOR DATA CENTERS: SWITCH, APPLE, E-BAY, RACKSPACE.
RESEARCH COLLABORATION.
HOME TO MICROSOFT, INTUIT, SIERRA NEVADA CORP.
"SUPER-LOOP" FIBER NETWORK IN PROGRESS.

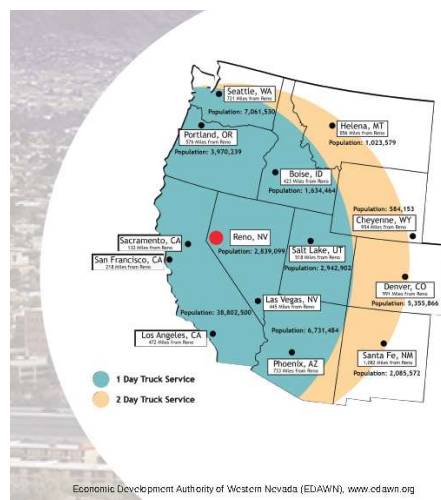


Source: Economic Development Authority of Western Nevada

Reno/Sparks Opportunity Zones

Hub to the Western United States

- **1-day truck drive to more than 60,000 customers and five U.S. ports serving the Pacific Rim.**
- **2-day truck drive to 10 large metros.**



Reno to Palo Alto

Blackbird ... is looking at launching a round-trip flight between Reno and Palo Alto, Calif., to better connect the Biggest Little City's growing technology sector with the center of the tech industry.



Source: Reno Gazette Journal, March 2018

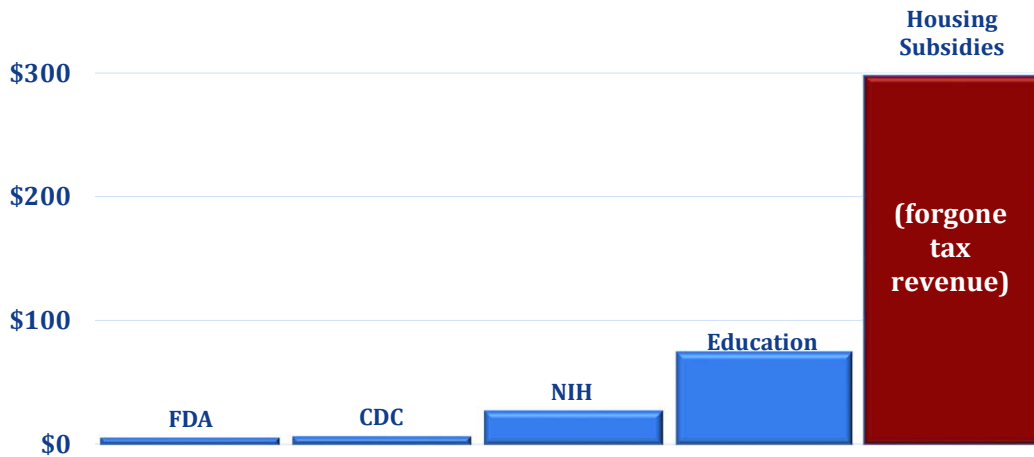
Fallacy



“Any loan to real estate is a good loan ... ”

Federal Spending Priorities

Annual, in \$ billions

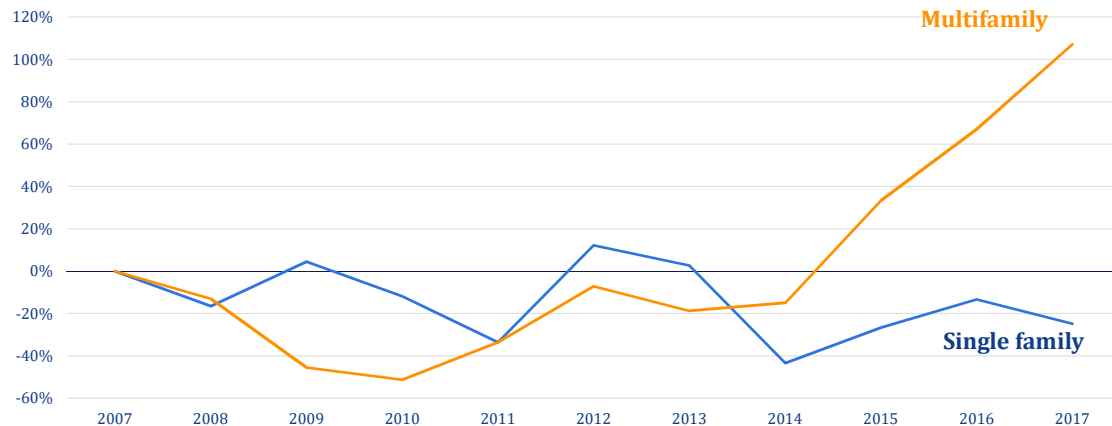


Sources: FDA, CDC, NIH, DOE, and Office of Management and Budget.

Note: FY 2018. Education reflects total DOE budget. Housing subsidies reflect estimated forgone tax revenues from deductions for imputed rent, mortgage interest and property taxes.

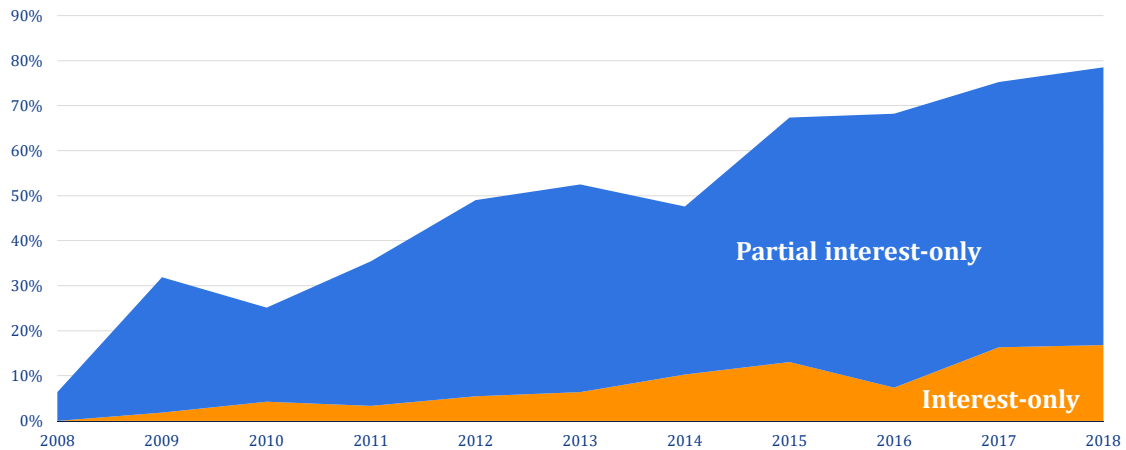
Fannie Mae and Freddie Mac Housing Loans

Growth since 2007



Source: Federal Housing Finance Agency.

Housing Loan Payments



Source: Federal Housing Finance Agency.

Change in U.S. Home Ownership



1980

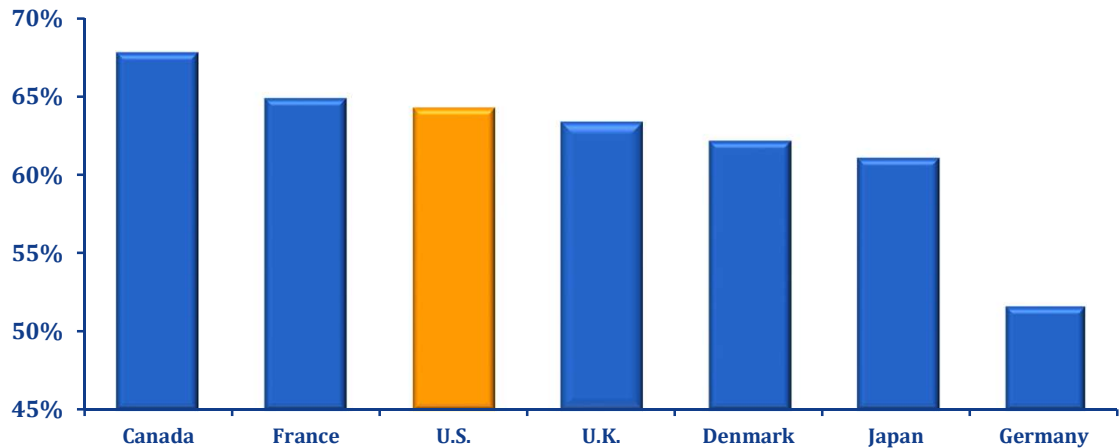


2017

**Bottomed out
in 2016 at
62.9%, the
lowest since
1985.**

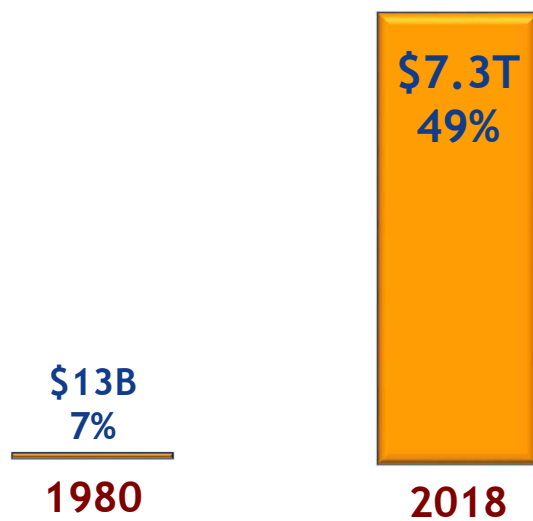
Note: Lowest value was 2Q 2016 at 62.9%.
Source: U.S. Census Bureau 4Q 2017.

Home Ownership Rates



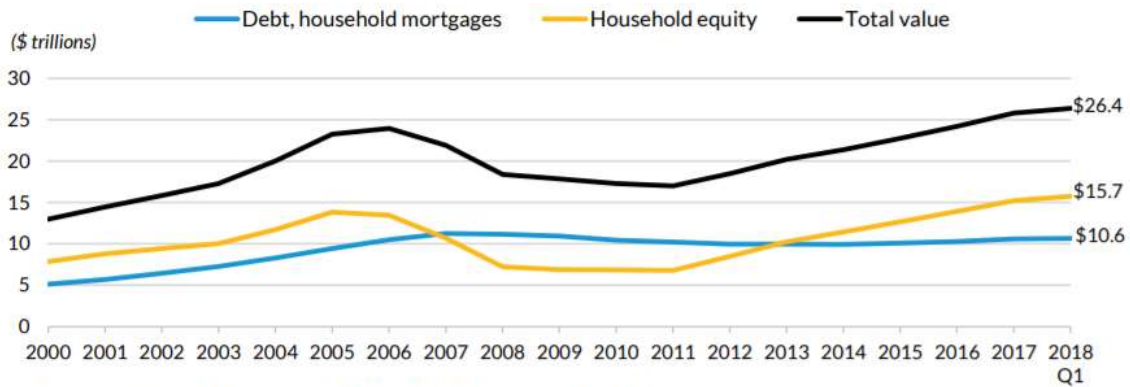
Sources: EuroStat, Statistics Bureau of Japan, Statistics Canada, U.S. Census Bureau.
Note: Latest data available as of 3/1/2018; based on latest census.

Mortgages Guaranteed by the Government



Source: Federal Reserve.

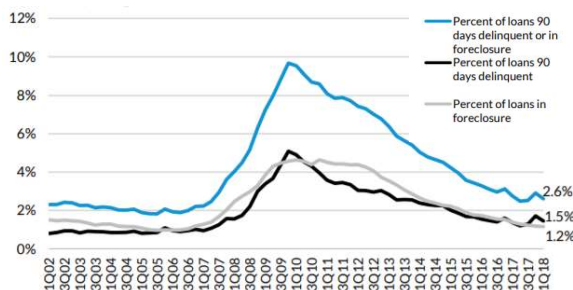
Value of the Housing Market



Recipe for a Future Housing Crisis?

Delinquencies/Foreclosures Decline ... but Debt-to-Income Ratios Rise

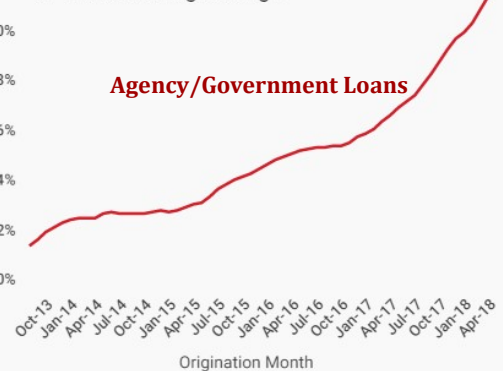
Delinquencies/Foreclosures



Sources: Urban Institute Housing Finance Chartbook July 2018; AEI's Center on Housing Markets and Finance.

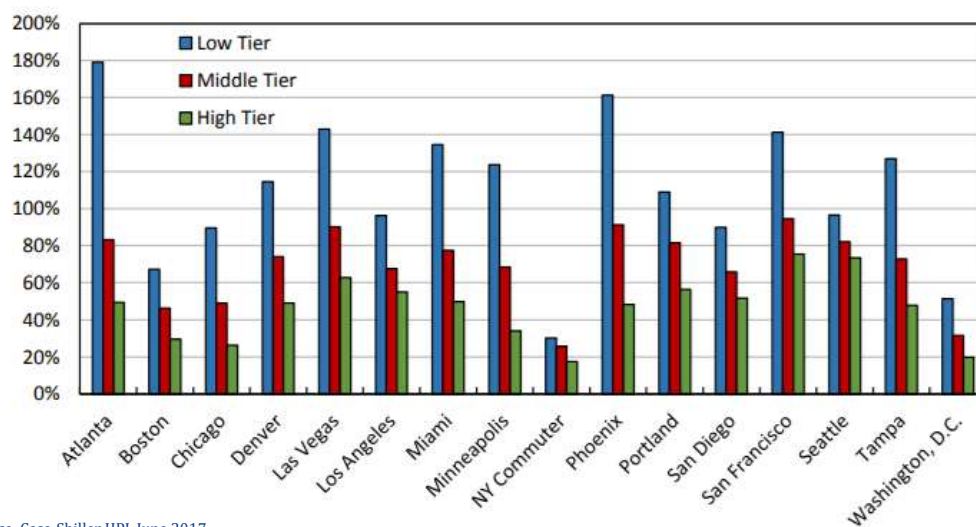
Share of Purchase Loan Borrowers with a DTI Above 43%*

12-month trailing average



Home Price Increases From 2011 to June 2017

Lowest-tier housing has the largest price increase



Source: Case-Shiller HPI, June 2017

Standard & Poor's Ratings

New Issues: 1/1/2000 to 9/30/2008

Investment-Grade Securities

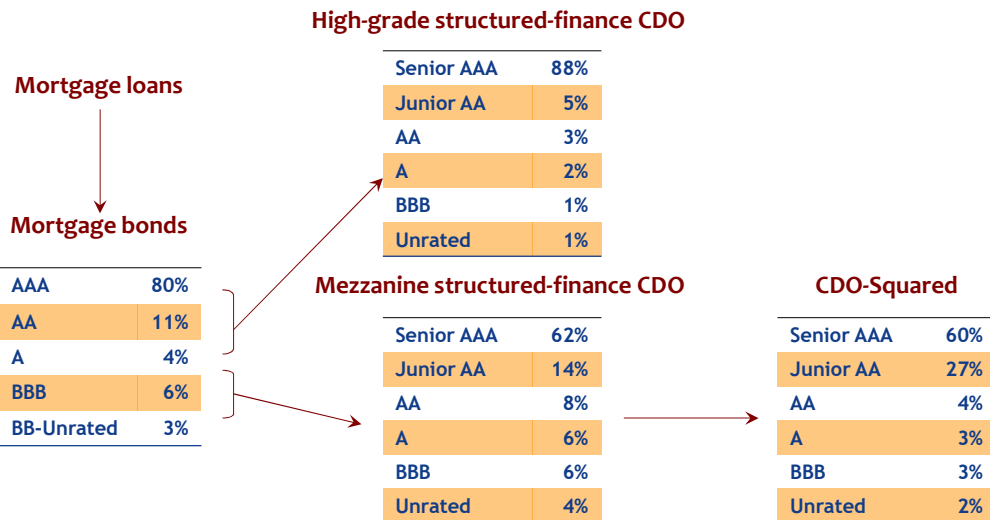
AAA	16,907
AA+	240
AA	2,098
AA-	3,414
A	2,602
A-	2,027
BBB+	903
BBB	1,371
BBB-	1,359

Non-investment Grade Securities

BB+	238
BB	313
BB-	331
B+	339
B	330
B-	1,189
CCC+	293
CCC	214
CCC-	104
CC	36
C	11

Source: Bloomberg 11/6/08

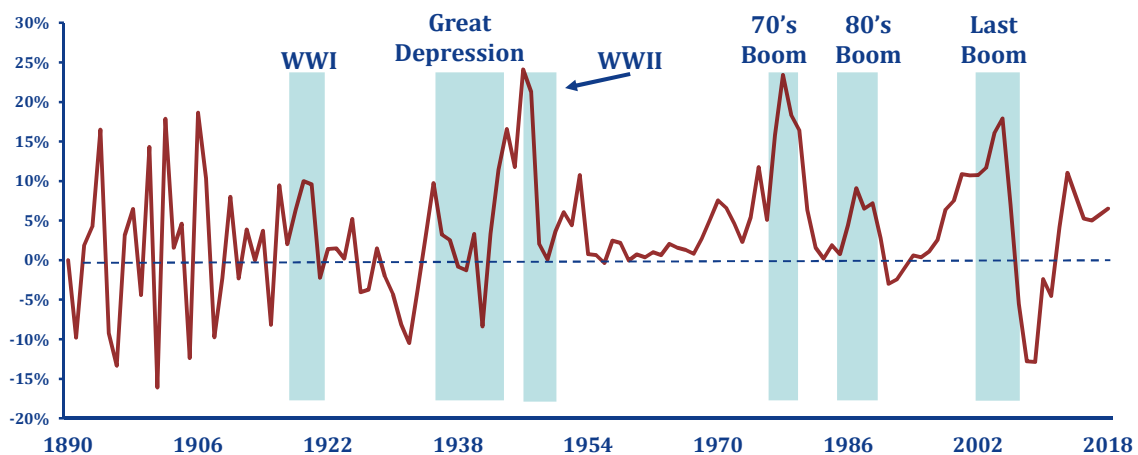
When is a AAA not a AAA?



Source: International Monetary Fund.

Home Prices Don't Go Up Forever

Change in home prices in 128 years



Sources: IHS Global Insight, Corelogic, Milken Institute, 3/1/2018.

Consumer Spending

U.S.

33% Housing
 18% Transportation
 13% Food
 11% Insurance/pensions
 6% Healthcare
 5% Entertainment
 4% Apparel and services
 2% Supplemental Education

Asia

23% Food
 15% Supplemental Education
 10% Housing
 8% Clothing
 8% Other
 6% Transportation
 5% Healthcare
 5% Communication

Source: U.S. Bureau of Labor Statistics/CLSA

When Lenders Make Non-Recourse Loans

Heads they lose — Tails they lose



- If prices rise, the borrower keeps the gain.
- If prices fall, the borrower can walk, sticking the lender with a long-term depreciating asset.
- If interest rates rise, the value of the loan depreciates as the “real” average life of the asset is extended.
- If interest rates fall, the borrower prepays.

“The no-recourse mortgage is virtually unique to the United States. That’s why falling house prices in Europe do not trigger defaults. The creditors’ ability to go beyond the house to other assets or even future salary is a deterrent.”

***- Martin Feldstein
U.S. Economist***

Social Effects of Overly Large Houses

- **Degradation of environment**
- **Divorce**
- **Spousal abuse**
- **Drug abuse**
- **Alcoholism**
- **Hypertension**
- **Depression**



Neutron Legislation - Late 1980s

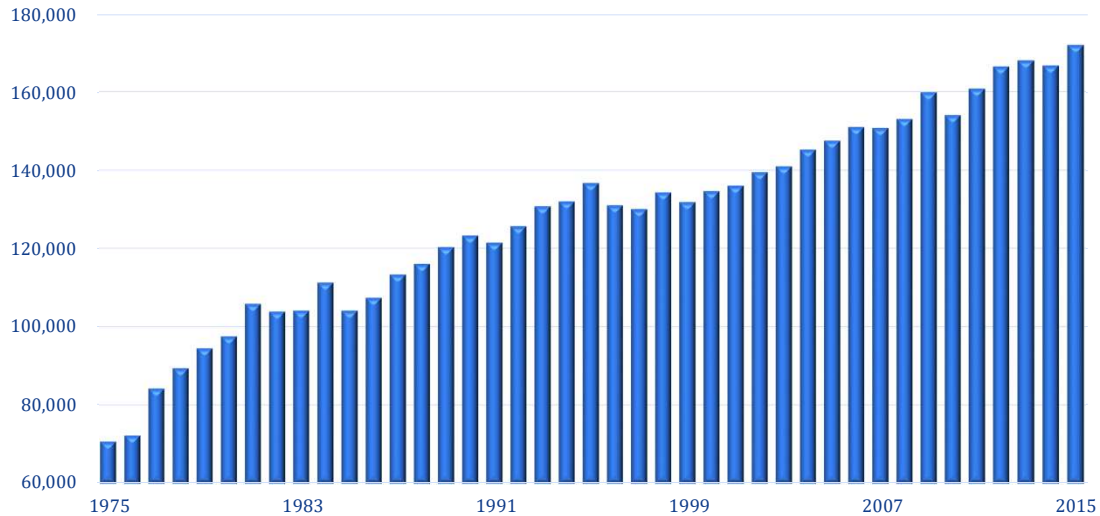


“It was OK to lend money to build a building, but it wasn’t OK to lend money to any company that would hire a person to work in the building.”

Examples of Regulation Following Volatility

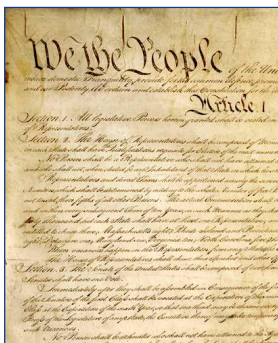
Period	Volatility	Regulation
1780s	Weak state currencies	Constitution/Commerce Clause
1830s-1850s	Wildcat state banking	National currency/Banking acts
1893	Stock market panic	Bankruptcy Act
1907	Run on trust companies	Federal Reserve Act
1929-1933	Market crash	Securities & Exchange Act
1930-1933	Bank failures	Glass-Steagall Act, FDIC, New Deal
1970s	Commodities speculation	CFTC
1970-90s	Employment insecurity	ERISA, COBRA, HIPAA
1987	S&L Crisis	FIRREA
2002	Dot.com/Enron/etc.	Sarbanes-Oxley
2008	Great Recession	Dodd-Frank

Pages in the Code of Federal Regulations

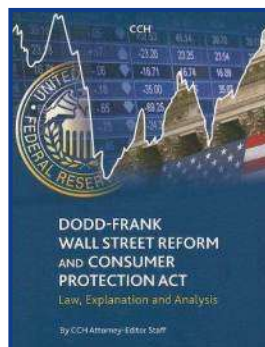


Source: Georg Washington University Regulatory Studies Center, 2015.

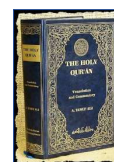
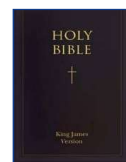
Regulation Complexity



6 pages



More than 2,000 pages...



... longer than the
Torah, Bible and Quran
COMBINED!